

**AUDITED FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTAL INFORMATION
OTHER FINANCIAL INFORMATION
AND SUPPLEMENTAL REPORT**

**GOGEBIC COUNTY TRANSIT
BESSEMER, MICHIGAN**

September 30, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|---|---------------------------------|--|-------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name GOGEBIC COUNTY TRANSIT | County GOGEBIC |
| Audit Date SEPTEMBER 30, 2004 | Opinion Date JANUARY 5, 2005 | Date Accountant Report Submitted to State: JANUARY 27, 2005 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | X |
| Reports on individual federal financial assistance programs (program audits). | | | X |
| Single Audit Reports (ASLGU). | | | X |

| | | | |
|---|------------------|-------------|--------------|
| Certified Public Accountant (Firm Name) JOKI, MAKELA & POLLACK, P.L.L.C. | | | |
| Street Address 301 N. SUFFOLK ST. | City IRONWOOD | State MI | ZIP 49938 |
| Accountant Signature <i>Joki, Makela & Pollack, PLLC</i> | | | |

CONTENTS

| | Page |
|---|------|
| Audited Financial Statements: | |
| Independent Auditor's Report | 3 |
| Management's Discussion and Analysis | 5 |
| Basic Financial Statements: | |
| Statement of Net Assets | 8 |
| Statement of Revenues, Expenses and Changes in Net Assets | 9 |
| Statement of Cash Flows | 10 |
| Notes to Financial Statements | 12 |
| Other Financial Information: | |
| Revenues | 18 |
| Operating Expenses | 19 |
| Schedule of Expenses by Contract and General Operations | 21 |
| Net Eligible Costs Computations of General Operations | 22 |
| Mileage Data | 23 |
| Schedule of Financial Assistance - Federal and State | 24 |
| Ineligible Revenues and Expenses | 26 |
| Supplemental Report - Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | A-1 |

JOKI, MAKELA & POLLACK, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Gogebic County Transit
Bessemer, Michigan

We have audited the accompanying basic financial statements of Gogebic County Transit, Bessemer, Michigan, an enterprise fund of Gogebic County, Michigan, as of and for the year ended September 30, 2004, as listed in the table of contents. These financial statements are the responsibility of Gogebic County Transit's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements of Gogebic County Transit are intended to present the financial position, results of operations and cash flows of only that portion of the business-type activities of Gogebic County Transit. They do not purport to, and do not, present fairly the financial position of Gogebic County, Michigan, as of September 30, 2004, and the results of its operations and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Gogebic County Transit, Bessemer, Michigan, as of September 30, 2004, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2005, on our consideration of Gogebic County Transit's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis information on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Gogebic County Transit taken as a whole. The accompanying financial information listed in the table of contents as Other Financial Information is presented for purposes of additional analysis and is not a required part of the basic financial statements of Gogebic County Transit. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Joki, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
January 5, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOGEBIC COUNTY TRANSIT

Year ended September 30, 2004

Management's Discussion and Analysis

This section of Gogebic County Transit's annual financial report presents management's discussion and analysis of the Transit's financial performance during the year ended September 30, 2004. It is to be read in conjunction with the Transit's financial statements, which immediately follow. In order to address the needs of external parties that read the Transit's financial statements, in accordance with reporting standards, the Transit presents fund financial statements.

Basic Financial Statements

The basic financial statements include the statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows. The basic financial statements are prepared using the accrual basis of accounting which is the accounting basis used by private sector businesses. The statement of net assets includes all of the Transit's assets and liabilities. All revenues and expenses are reported for in the statement of revenues, expenses and changes in net assets and statement of cash flows.

Gogebic County Transit is accounted for as an enterprise fund of Gogebic County. The financial statements of Gogebic County Transit are intended to present the financial position, results of operations and cash flows of only that portion of the business-type activities of Gogebic County that are attributable to the transactions of Gogebic County Transit.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Financial Information

Condensed financial information follows:

(1) Statement of Net Assets

| | | September 30, | |
|----------------------------|------------------|-------------------|-------------------|
| | | 2004 | 2003 |
| ASSETS | | | |
| Current assets | | \$ 254,316 | \$ 260,109 |
| Capital assets | | <u>541,370</u> | <u>603,607</u> |
| | TOTAL ASSETS | <u>\$ 795,686</u> | <u>\$ 863,716</u> |
| LIABILITIES | | | |
| Current liabilities | | <u>\$ 36,616</u> | <u>\$ 28,140</u> |
| NET ASSETS | | | |
| Invested in capital assets | | \$ 541,370 | \$ 603,607 |
| Restricted | | 3,316 | 3,307 |
| Unrestricted | | <u>214,384</u> | <u>228,662</u> |
| | TOTAL NET ASSETS | <u>\$ 759,070</u> | <u>\$ 835,576</u> |

(2) Statement of Revenues, Expenses and Changes in Net Assets

| | | September 30, | |
|---------------------------------|---------------------------------------|-------------------|-------------------|
| | | 2004 | 2003 |
| Operating revenues | | \$ 45,064 | \$ 43,068 |
| Operating expenses | | <u>504,970</u> | <u>502,262</u> |
| | OPERATING LOSS | \$ (459,906) | \$ (459,194) |
| Nonoperating revenues | | <u>327,088</u> | <u>311,193</u> |
| | NET LOSS BEFORE CAPITAL CONTRIBUTIONS | \$ (132,818) | \$ (148,001) |
| Capital contributions | | <u>56,312</u> | <u>65,478</u> |
| | DECREASE IN NETS ASSETS | \$ (76,506) | \$ (82,523) |
| Net assets at beginning of year | | <u>835,576</u> | <u>918,099</u> |
| | NET ASSETS AT END OF YEAR | <u>\$ 759,070</u> | <u>\$ 835,576</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Management's Analysis

The Transit is funded primarily by State and Federal grants and by a County-wide property tax levy. Operating revenues are made up of predominantly demand-response fares. Capital contributions for the year ended September 30, 2003, included federal and state grants restricted for equipment purchases. Capital contributions for the year ended September 30, 2004, were primarily for the purchase of a new bus.

The difference between the Transit's total assets and total liabilities is labeled as net assets. The difference is similar to the total owners' equity presented by a commercial enterprise. As shown above, net assets consists of \$541,370 invested in capital assets, \$3,316 restricted and \$214,384 unrestricted at September 30, 2004. Net assets decreased during the year by \$76,506. However, included as an operating expense for the year was depreciation expense of \$118,549. Net of depreciation expense, net assets increased by \$42,043.

Expenses for the year ended September 30, 2004, increased over the prior year. The largest increases were in the categories of wages, health benefits and liability and pool insurances.

Unrestricted net assets of \$214,384 represents approximately six months of operating expenses, net of depreciation. Management believes this is a reasonable balance to carry forward to the next fiscal year.

Capital Assets

The Transit purchased radio equipment and a bus costing \$56,312 during the year ended September 30, 2004. The entire amount was paid for by capital contributions. The Transit received \$3,812 for a bus sold during the year. Original cost of assets sold or disposed of were \$61,060. All assets disposed of were fully depreciated.

Debt

The Transit had no outstanding long-term debt at September 30, 2004 or 2003.

Future Considerations

The Transit has signed its Operating Assistance Grant and Section 18 Grant for the year ending September 30, 2005. State funding levels are expected to decrease 3.8% from the September 30, 2004 year-end funding levels. This is roughly \$15,000 of the Transit's current operating budget.

Contacting Gogebic County Transit

Any questions can be addressed or additional information obtained by, contacting the Transit's office at 235 E. McLeod Avenue, Ironwood, MI 49938 or calling (906) 932-2523.

STATEMENT OF NET ASSETS

GOGEBIC COUNTY TRANSIT

September 30, 2004

ASSETS

CURRENT ASSETS

| | | |
|---------------------------|----|--------------|
| Cash | \$ | 78,894 |
| Cash equivalents | | 113,566 |
| Investments | | 53,316 |
| Grants receivable | | 3,136 |
| Property taxes receivable | | 1,583 |
| Prepaid insurance | | <u>3,821</u> |

TOTAL CURRENT ASSETS \$ 254,316

NONCURRENT ASSETS

Capital Assets:

| | | |
|----------------------------------|----|------------------|
| Land | \$ | 37,557 |
| Building | | 541,123 |
| Vehicles | | 344,543 |
| Equipment | | <u>160,358</u> |
| | \$ | <u>1,083,581</u> |
| Less allowances for depreciation | | <u>542,211</u> |
| | | <u>541,370</u> |

TOTAL ASSETS \$ 795,686

LIABILITIES

CURRENT LIABILITIES

| | | |
|----------------------------|----|---------------|
| Trade accounts payable | \$ | 15,372 |
| Salaries and related taxes | | 6,612 |
| Compensated absences | | <u>14,632</u> |

TOTAL CURRENT LIABILITIES \$ 36,616

NET ASSETS

| | | |
|----------------------------|----|----------------|
| Invested in capital assets | \$ | 541,370 |
| Restricted | | 3,316 |
| Unrestricted | | <u>214,384</u> |

TOTAL NET ASSETS \$ 759,070

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

GOGEBIC COUNTY TRANSIT

Year ended September 30, 2004

| | | | |
|---|---------------------------------------|----------------|----------------|
| Operating revenues - charges for services | | \$ | 45,064 |
| Operating expenses: | | | |
| Personnel services | \$ | 290,997 | |
| Purchases for services | | 60,136 | |
| Materials and supplies | | 23,377 | |
| Other expenses | | 11,911 | |
| Depreciation | | <u>118,549</u> | <u>504,970</u> |
| | OPERATING LOSS | \$ | (459,906) |
| Nonoperating revenues: | | | |
| Local | \$ | 123,357 | |
| State | | 164,979 | |
| Federal | | <u>38,752</u> | <u>327,088</u> |
| | NET LOSS BEFORE CAPITAL CONTRIBUTIONS | \$ | (132,818) |
| Capital contributions | | | <u>56,312</u> |
| | DECREASE IN NET ASSETS | \$ | (76,506) |
| Net assets at beginning of year | | | <u>835,576</u> |
| | NET ASSETS AT END OF YEAR | \$ | <u>759,070</u> |

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

GOGEBIC COUNTY TRANSIT

Year ended September 30, 2004

| | |
|--|-------------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 46,519 |
| Cash paid to suppliers and employees for goods and services | <u>(377,945)</u> |
| NET CASH USED IN OPERATING ACTIVITIES | \$ (331,426) |
| Cash flows from noncapital financing activities: | |
| Cash received from property tax levies | \$ 119,308 |
| State and federal grants received | <u>205,699</u> |
| NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES | \$ 325,007 |
| Cash flows from capital and related financing activities: | |
| Proceeds from sale of capital assets | \$ 3,812 |
| Capital contributions | 56,312 |
| Purchases of capital assets | <u>(56,312)</u> |
| NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES | \$ 3,812 |
| Cash flows from investing activities: | |
| Purchase of certificates of deposit | \$ (53,316) |
| Interest earned | <u>848</u> |
| NET CASH USED IN INVESTING ACTIVITIES | \$ (52,468) |
| NET DECREASE IN CASH | \$ (55,075) |
| Cash and cash equivalents at beginning of year | <u>247,535</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 192,460</u> |

STATEMENT OF CASH FLOWS (CONTINUED)

Reconciliation of operating loss to net cash provided by
(used in) operating activities:

Operating loss \$ (459,906)

Adjustments to reconcile operating loss to net cash
provided by (used in) operating activities:

Depreciation \$ 118,549

Decrease in - Accounts receivable 1,455

Increase (decrease) in:

Accounts payable 8,538

Accrued liabilities (62)

Total adjustments \$ 128,480

NET CASH USED IN OPERATING ACTIVITIES \$ (331,426)

The accompanying notes are an integral part of the
financial statements.

NOTES TO FINANCIAL STATEMENTS

GOGEBIC COUNTY TRANSIT

September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Gogebic County Transit was organized on November 28, 1990, by Gogebic County to provide public transportation to the general public in Gogebic County. Gogebic County Transit is incorporated as a non-profit, non-stock corporation pursuant to State of Michigan Public Act 196 of 1986, as amended. The corporation operates under the direction of a Board of Directors of five persons appointed by the Gogebic County Board of Commissioners and is an enterprise fund of Gogebic County.

The accounting policies of Gogebic County Transit conform to generally accepted accounting policies as applicable to governments. The following is a summary of the significant accounting policies.

Fund Description

Gogebic County Transit is accounted for as an enterprise fund of Gogebic County. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policies, management control, accountability or other purposes.

Basis of Accounting and Measurement Focus

The accrual basis of accounting and the flow of all economic resources (measurement focus) are followed. This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, and revenues are recorded when earned and expenses are recorded when incurred. Under this basis of accounting and measurement focus, the Transit applies (a) all GASB pronouncements and (b) FASB Statements and Interpretations, APB Opinions and Accountants Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Property and Equipment and Depreciation

Land donated to Gogebic County Transit by the City of Ironwood for the bus facility is stated at appraised value on the date donated. The building was constructed with Federal and State of Michigan capital grant monies and is stated at cost. Depreciation is computed by the straight-line method based upon a useful life of 20 years.

Vehicles and equipment are stated at their fair market value as of the date the State of Michigan transfers title to Gogebic County. Equipment purchased with State capital grant monies is stated at cost. Depreciation is computed by the straight-line method based upon a useful life of five years for vehicles and three to ten years for equipment. All vehicles and equipment were acquired from the State of Michigan or with State capital grant monies. The State of Michigan may also require local matching contributions per grant agreements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Levy

Taxes to be used exclusively for the operation of Gogebic County Transit are assessed against all property in Gogebic County. Property taxes are recognized as revenue in the year in which they are levied. Taxes are levied on December 1 of each year based on taxable valuation as of the preceding December 31. Current property taxes are collected for the Transit by the local governmental units comprising Gogebic County and are due annually by February 15. Delinquent real taxes are purchased annually by Gogebic County.

Investments

Investments are savings certificates of deposit in financial institutions with a maturity greater than three months. All investments held are covered by federal depository insurance.

Accounts Receivable

The Transit extends credit to various local governmental agencies. The Transit uses the direct write-off method to recognize uncollectible accounts. This method approximates the reserve method.

Revenues

Operating revenues consist of charges for services. Nonoperating revenues consist of revenue received from local property taxes, state grants and federal grants.

Capital Contributions

The Transit applies for and is awarded grants from state and federal agencies for the purchase of capital assets. These capital contributions are accounted for as revenue as conditions of the grants are met.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets Invested in Capital Assets

This is the portion of net assets of the Transit that consists of capital assets, net of accumulated depreciation and reduced by long-term liabilities for notes, bonds and other debt attributable to the acquisition, construction or improvement of those assets. There were no long-term liabilities at September 30, 2004.

Restricted Net Assets

Net assets are restricted when there are constraints placed on their use by external parties or by statute.

Unrestricted Net Assets

Net assets not meeting either criteria above are considered unrestricted

NOTE B - CASH AND CASH EQUIVALENTS

All deposits were made in a bank and a money market trust fund authorized by the Board of Directors and under authority of State of Michigan deposit laws.

At September 30, 2004, cash on deposit in financial institutions totaled \$74,342, all of which was covered by depository insurance. The cash equivalents of \$113,566 are deposited in a money market trust fund invested entirely in short-term United States Treasury obligations or in repurchase agreements whose underlying securities are United States Treasury obligations. State of Michigan deposit laws authorize local units of government to invest in United States Treasury obligations and in repurchase agreements whose underlying securities are United States Treasury obligations. Cash equivalents were not covered by federal depository insurance.

For purposes of the Statement of Cash Flows, all cash and cash equivalents with a maturity of three months or less are considered to be cash and cash equivalents.

NOTE C - COST ALLOCATION PLANS

Gogebic County Transit has cost allocation plans approved by Bus Transit Division, Michigan Department of Transportation, for all allocated expenses. These plans have been adhered to in the preparation of the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D - CAPITAL ASSETS

A summary of changes in capital assets follows:

| | Balance at October 1, <u>2003</u> | <u>Additions</u> | <u>Deductions</u> | Balance at September 30, <u>2004</u> |
|----------------------------------|---|--------------------|-------------------|--|
| Land | \$ 37,557 | | | \$ 37,557 |
| Building | 541,123 | | | 541,123 |
| Vehicles | 343,864 | \$ 55,268 | \$ 54,589 | 344,543 |
| Equipment | <u>165,785</u> | <u>1,044</u> | <u>6,471</u> | <u>160,358</u> |
| | \$ 1,088,329 | \$ 56,312 | \$ 61,060 | \$ 1,083,581 |
| Less allowances for depreciation | <u>484,722</u> | <u>118,549</u> | <u>61,060</u> | <u>542,211</u> |
| | <u>\$ 603,607</u> | <u>\$ (62,237)</u> | <u>\$ 0</u> | <u>\$ 541,370</u> |

NOTE E - COMPENSATED ABSENCES

Gogebic County Transit has a written policy providing for payment of sick and vacation leave. Payment in lieu of accrued sick leave is limited to \$20 per day for one-half of accumulated leave days. Payment of vacation leave upon termination of employment is limited to thirty leave days. Each employee's accumulated vacation and sick pay is computed by applying his current rate of pay times total accumulated leave, subject to the limits. The total, \$14,632, is reported in the financial statements as a liability.

NOTE F - RESTRICTED NET ASSETS

Restricted net assets consist of a savings certificate restricted for future unemployment claims.

NOTE G - PENSION PLAN

All full-time employees of Gogebic County Transit are covered by a simplified employee pension plan administered by Transamerica Occidental Life. The Plan is a defined contribution plan covering all employees who are at least 21 years old and who have performed services for the Transit in at least three of the immediately preceding five years.

The Transit contributes five percent of each employee's annual wages. Employees do not make contributions to the Plan. All participants are fully vested immediately.

The Transit made contributions to the Plan of \$9,165 for the year ended September 30, 2004.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – RISK MANAGEMENT

The Transit is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Transit has obtained coverage for liability and fleet coverage from the Michigan Transit Pool (MTP). The MTP provides \$1,000,000 maximum coverage per occurrence, with a \$5,000 retention. The Transit has a contingency reserve of approximately \$4,126 with MTP as of September 30, 2004. This amount is not recognized in the financial statements of the Transit as an asset.

Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the Transit as of September 30, 2004, will not materially affect the financial condition of the Transit. Therefore, the financial statements contain no provision for estimated claims.

The Transit carries commercial insurance for all other risks of loss, including physical damage to property and equipment, business and board liability, employees and business owners liability and inland marine liability for radio equipment. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

OTHER
FINANCIAL
INFORMATION

REVENUES
GOGEBIC COUNTY TRANSIT
Year ended September 30, 2004

OPERATING REVENUES

Charges for services:

| | |
|------------------------------------|------------------|
| Demand - response farebox revenues | \$ 38,784 |
| Advertising services | 2,160 |
| Intercity ticket sales commissions | 4,054 |
| Miscellaneous | <u>66</u> |
| | <u>\$ 45,064</u> |

NONOPERATING REVENUES

Local:

| | |
|---|-------------------|
| Property tax levy | \$ 113,531 |
| Commercial forest act monies and payments in lieu of taxes | 5,166 |
| Interest earned | 848 |
| Gain on sale of assets | <u>3,812</u> |
| | <u>\$ 123,357</u> |

State grants:

Local bus operating assistance (Act 51) -
Operating assistance contract:

| | |
|-----------------|--------------|
| 2004 | \$ 155,220 |
| 2003 | 7,159 |
| 2001 adjustment | <u>(660)</u> |

\$ 161,719

Rural transportation assistance program

3,260

\$ 164,979

Federal grants:

Operating assistance contract: (Section 5311)

| | |
|----------------------------------|------------|
| 2003-04 contract 2002-0039/Z5/R3 | \$ 38,486 |
| 2002-03 contract 2002-0040 | <u>266</u> |

\$ 38,752

\$ 327,088

CAPITAL CONTRIBUTIONS

| | <u>Federal grants</u> | <u>State grants</u> | <u>Total</u> |
|-----------------------|-----------------------|---------------------|------------------|
| Contract 2002-0039/Z4 | \$ 44,214 | \$ 11,054 | \$ 55,268 |
| Contract 2001-0909 | <u>835</u> | <u>209</u> | <u>1,044</u> |
| | <u>\$ 45,049</u> | <u>\$ 11,263</u> | <u>\$ 56,312</u> |

OPERATING
GOGEBIC COUNTY
Year ended

| | Operations | Maintenance |
|--|-------------------|------------------|
| Labor: | | |
| Operators' salaries and wages | \$ 71,276 | |
| Other salaries and wages | 30,080 | |
| Fringe benefits: | | |
| Paid absences | 15,918 | |
| Other benefits | 70,039 | |
| Services: | | |
| Snow removal | 1,470 | |
| Maintenance | | \$ 7,035 |
| Professional fees | | |
| Other services | 101 | |
| Utilities and telephone | 9,224 | |
| Materials and supplies consumed: | | |
| Fuel and lubricants | 12,927 | 867 |
| Tires and tubes | 1,718 | |
| Other materials and supplies | | 5,295 |
| Casualty and liability costs - premiums for public liability and property damage insurance | 25,393 | |
| Miscellaneous expenses: | | |
| Advertising | | |
| Travel and seminars | | |
| Other miscellaneous expenses | 866 | |
| Depreciation | <u>107,568</u> | <u>2,708</u> |
| | <u>\$ 346,580</u> | <u>\$ 15,905</u> |

EXPENSES

TRANSIT

September 30, 2004

| <hr/> | |
|---------------------------|-------------------|
| General Administration | Total |
| <hr/> | |
| | |
| \$ 62,762 | \$ 71,276 |
| | 92,842 |
| | |
| 10,671 | 26,589 |
| 30,251 | 100,290 |
| | |
| | 1,470 |
| | 7,035 |
| 3,425 | 3,425 |
| 444 | 545 |
| | |
| 1,043 | 10,267 |
| | |
| | 13,794 |
| | 1,718 |
| 2,570 | 7,865 |
| | |
| 12,001 | 37,394 |
| | |
| 5,120 | 5,120 |
| 4,560 | 4,560 |
| 1,365 | 2,231 |
| | |
| <u>8,273</u> | <u>118,549</u> |
| | |
| <u>\$ 142,485</u> | <u>\$ 504,970</u> |

SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS

GOGEBIC COUNTY TRANSIT

Year ended September 30, 2004

| | Operations |
|--|---|
| Labor | \$ 164,118 |
| Fringe benefits | 126,879 |
| Services | 12,475 |
| Utilities and telephone | 10,267 |
| Casualty and liability costs | 37,394 |
| Materials and supplies consumed | 23,377 |
| Miscellaneous expenses | 11,911 |
| Depreciation | <u>118,549</u> |
| | |
| | TOTAL \$ 504,970 |
| Less: | |
| Rural transportation assistance program revenues | 3,260 |
| MPTA dues | 46 |
| MPTA legal fund | 31 |
| Employee gifts | <u>360</u> |
| | |
| | TOTAL ELIGIBLE EXPENSES <u>\$ 501,273</u> |

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS

GOGEBIC COUNTY TRANSIT

Year ended September 30, 2004

| | Federal Section 5311 | State Operating Assistance |
|---|----------------------------|----------------------------------|
| Expenses: | | |
| Labor | \$ 164,118 | \$ 164,118 |
| Fringe benefits | 126,879 | 126,879 |
| Services | 12,475 | 12,475 |
| Materials and supplies consumed | 10,267 | 10,267 |
| Utilities and telephone | 37,394 | 37,394 |
| Casualty and liability costs | 23,377 | 23,377 |
| Miscellaneous expenses | 11,911 | 11,911 |
| Depreciation | <u>118,549</u> | <u>118,549</u> |
| TOTAL EXPENSES | \$ 504,970 | \$ 504,970 |
| Less: | | |
| Ineligible expenses: | | |
| Depreciation | \$ 118,549 | \$ 118,549 |
| MPTA dues | 46 | 46 |
| MPTA legal fund | 31 | 31 |
| Rural transportation assistance program revenues | 3,260 | 3,260 |
| Audit fees | 3,425 | |
| Employee gifts | <u>360</u> | <u>360</u> |
| | <u>\$ 125,671</u> | <u>\$ 122,246</u> |
| NET ELIGIBLE EXPENSES | <u>\$ 379,299</u> | <u>\$ 382,724</u> |
| MAXIMUM FEDERAL SECTION 5311 REIMBURSEMENT: | | |
| 2004 - 10.95 %; limited to grant award of \$40,241 | <u>\$ 40,241</u> | |
| MAXIMUM NONFEDERAL SHARE | | <u>\$ 382,724</u> |
| MAXIMUM STATE OPERATING ASSISTANCE REIMBURSEMENT - | | |
| 2004 - 42.2366% | | <u>\$ 161,460</u> |
| STATE OPERATING ASSISTANCE REIMBURSEMENT - | | |
| Limited to 42.2366% of budgeted eligible expenses - \$367,500 | | <u>\$ 155,220</u> |

MILEAGE DATA
GOGEBIC COUNTY TRANSIT
Year ended September 30, 2004

| | Public Transportation Mileage | Charter/ School Bus Mileage | Demonstration Project Mileage |
|--------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| Demand - Response: | | | |
| First Quarter | 25,241 | -0- | -0- |
| Second Quarter | 25,567 | -0- | -0- |
| Third Quarter | 25,735 | -0- | -0- |
| Fourth Quarter | <u>26,230</u> | <u>-0-</u> | <u>-0-</u> |
| TOTAL OPERATION | <u>102,773</u> | <u>-0-</u> | <u>-0-</u> |

The methodology for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

SCHEDULE OF FINANCIAL

GOGEBIC COUNTY

Year ended

| | Federal Catalog Number | State Grant Number | Grant Award |
|---|------------------------------|--------------------------|-------------------|
| <u>U.S. Department of Transportation</u> | | | |
| Passed through Michigan Department of Transportation: | | | |
| Section 18 (5311) Capital | 20.507 | 2002-0039/Z4 | \$ 60,000 |
| Section 18 (5311) Capital (Note 1) | 20.507 | 2001-0909 | <u>50,000</u> |
| TOTAL CAPITAL ASSISTANCE | | | \$ 110,000 |
| <u>U.S. Department of Transportation</u> | | | |
| Passed through Michigan Department of Transportation: (Note 2) | | | |
| Section 18 Operating Assistance | 20.509 | 2002-0039/Z5/R3 | \$ 40,241 |
| Section 18 Operating Assistance | 20.509 | 2002-0039/Z2 | <u>35,494</u> |
| <u>Michigan Department of Transportation</u> | | | |
| Operating Assistance - Act 51 (Note 3) | N/A | 2002-0039 | \$ 157,986 |
| Operating Assistance - Act 51 | N/A | 2002-0039 | 155,220 |
| Rural Transportation Assistance | N/A | N/A | <u>3,500</u> |
| TOTAL OPERATING ASSISTANCE | | | \$ 392,441 |
| TOTAL FINANCIAL ASSISTANCE | | | <u>\$ 502,441</u> |

Notes:

1. Grant monies of \$48,956 were accounted for in prior years.
2. Grant monies of \$3,136 not collected by September 30, 2004, have been included in grants receivable on the Balance Sheet.
3. Grant award for September 30, 2003 was increased by \$7,159 from original budget award amount. Grant monies of \$150,827 were accounted for in prior years.

ASSISTANCE - FEDERAL AND STATE

TRANSIT

September 30, 2004

| Federal Grant Revenue | State Grant Revenue | Grant Expenditures |
|-----------------------------|---------------------------|-----------------------|
| \$ 44,214 | \$ 11,054 | \$ 55,268 |
| <u>835</u> | <u>209</u> | <u>1,044</u> |
| \$ 45,049 | \$ 11,263 | \$ 56,312 |
| \$ 38,486 | | \$ 38,486 |
| 266 | | 266 |
| | \$ 7,159 | \$ 7,159 |
| | 155,220 | 155,220 |
| | <u>3,260</u> | <u>3,260</u> |
| <u>\$ 38,752</u> | <u>\$ 165,639</u> | <u>\$ 204,391</u> |
| <u>\$ 83,801</u> | <u>\$ 176,902</u> | <u>\$ 260,703</u> |

INELIGIBLE REVENUES AND EXPENSES

GOGEBIC COUNTY TRANSIT

September 30, 2004

Revenues and expenses which are ineligible in accordance with State and Federal guidelines are summarized below.

Depreciation expense - depreciation expense accrued by public operators is an ineligible expense in accordance with the State Operating Assistance and Federal Section 5311 programs.

Rural transportation assistance - expenses reimbursed under the State Rural Transportation Assistance and other grant programs are ineligible expenses for the State Operating Assistance and Federal Section 5311 programs.

Capital facility grant expenses - expenses paid for capital facilities grant projects are ineligible expenses in accordance with the State Operating Assistance and Federal Section 5311 programs.

Michigan Public Transit Authority (MPTA) dues - 93 percent of MPTA dues are eligible for reimbursement under State Operating Assistance and Federal Section 5311 programs.

Annual audit costs - expenses paid for an audit of a transit agency that expends less than \$300,000 in federal funds are ineligible expenses in accordance with Federal Section 5311 programs.

Unemployment compensation reimbursement - expenses paid out of the unemployment compensation certificate of deposit for current year unemployment claims are ineligible expenses in accordance with the State Operating Assistance and Federal Section 5311 programs. The entire amount of funds expended to purchase the certificate of deposit were previously deducted as eligible expenses for state and federal grant programs.

Employee gifts - expenses paid for gifts to employees are ineligible expenses in accordance with State Operating Assistance and Federal Section 5311 programs.

Michigan Public Transit Authority (MPTA) legal fees - expenses paid for MPTA legal fees are ineligible expenses in accordance with the State Operating Assistance and Federal Section 5311 programs.

SUPPLEMENTAL
REPORT

JOKI, MAKELA & POLLACK, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBERS**

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**REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Directors
Gogebic County Transit
Bessemer, Michigan

We have audited the financial statements of Gogebic County Transit, Bessemer, Michigan, an enterprise fund of Gogebic County, Michigan, as of and for the year ended September 30, 2004, and have issued our report thereon dated January 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Gogebic County Transit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gogebic County Transit's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Urban Mass Transportation Administration and the Michigan Department of Transportation (MDOT) and is not intended to be and should not be used by anyone other than these specified parties.

Joki, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
January 5, 2005